

Case No: 2008-00128

March 31, 2008

HAND DELIVERED

Ms. Stephanie L. Stumbo  
Executive Director  
Kentucky Public Service Commission  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, Kentucky 40602-0615

**RECEIVED**

MAR 31 2008

PUBLIC SERVICE  
COMMISSION

Dear Ms. Stumbo:

Pursuant to the Commission Order in Case No. 2006-00472 dated December 5, 2007, attached for filing is an original and six copies of a proposed revision to EKPC's Tariff for Qualified Cogeneration and Small Production Facilities. The new tariff is designated as P.S.C. KY No. 6 and both original and redline versions are included herein as Exhibit I. Support information for the revised tariff is contained in Exhibit II. The notice to the Member Systems is included in Exhibit III.

If you have any questions, please let me know.

Sincerely,

Charles A. Lile  
Senior Corporate Counsel

CAL/gpm  
Enclosures

**EXHIBIT I**

**PROPOSED TARIFF**

EAST KENTUCKY POWER COOPERATIVE, INC.  
OF  
WINCHESTER, KENTUCKY

RATES, RULES, AND REGULATIONS FOR PURCHASING  
ELECTRIC POWER AND ENERGY  
AT  
VARIOUS LOCATIONS THROUGHOUT KENTUCKY  
FROM  
QUALIFIED COGENERATION AND  
SMALL POWER PRODUCTION FACILITIES

FILED WITH THE PUBLIC SERVICE COMMISSION  
OF KENTUCKY

ISSUED March 31, 2008

EFFECTIVE May 1, 2008

ISSUED BY EAST KENTUCKY POWER COOPERATIVE, INC.

BY \_\_\_\_\_

Robert M. Marshall  
President and Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

COGENERATION AND SMALL POWER PRODUCTION  
POWER PURCHASE RATE SCHEDULE OVER 100 kW

**AVAILABILITY**

Available only to qualified cogeneration or small power production facilities with a design capacity of over 100 kW which have executed a contract with East Kentucky Power Cooperative and one of EKPC's member distribution systems for the purchase of electric power by East Kentucky Power Cooperative.

**RATES**

The rates set forth below shall be used as the basis for negotiating a final purchase rate with qualifying facilities pursuant to Section 7 of 807 KAR 5:054. (T)

1. Capacity

- a. \$40.40 per kW per year is applicable if cogenerator or small power producer is dispatched by East Kentucky Power Cooperative. (I)
- b. \$0.00614 per kWh is applicable if cogenerator or small power producer is not dispatched by East Kentucky Power Cooperative. (I)

2. Energy – A base payment per kWh is listed below for a time-differentiated basis or a non-time differentiated basis for the specified years.

a. Time Differentiated Rates:

Year	<u>Winter</u>		<u>Summer</u>		
	On-Peak	Off-Peak	On-Peak	Off-Peak	
2008	\$0.06032	\$0.04293	\$0.06637	\$0.03199	(I)
2009	\$0.05722	\$0.03881	\$0.05447	\$0.02094	(I)
2010	\$0.05647	\$0.03461	\$0.05069	\$0.02203	(I)
2011	\$0.06015	\$0.03899	\$0.06448	\$0.03069	(I)
2012	\$0.05875	\$0.03817	\$0.05737	\$0.02486	(I)

b. Non-Time Differentiated Rates:

Year	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
Rate	\$0.05120	\$0.04428	\$0.04219	\$0.04933	\$0.04596	(I)

DATE OF ISSUE March 31, 2008

DATE EFFECTIVE May 1, 2008

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

---

The on-peak and off-peak energy rates are applicable during the hours listed below for each season:

Winter (October - April)

**On-Peak** 7:00 a.m. - 12:00 noon  
5:00 p.m. - 10:00 p.m.

**Off-Peak** 12:00 noon - 5:00 p.m.  
10:00 p.m. - 7:00 a.m.

Summer (May - September)

**On-Peak** 10:00 a.m. - 10:00 p.m.

**Off-Peak** 10:00 p.m. - 10:00 a.m.

#### TERMS AND CONDITIONS

1. All power from a Qualifying Facility (QF) will be sold only to East Kentucky Power Cooperative.
2. Seller must provide good quality electric power within a reasonable range of voltage, frequency, flicker, harmonic currents, and power factor.
3. Qualifying Facility (QF) shall provide reasonable protection for EKPC and the member cooperative's system.
4. Qualifying Facility (QF) shall design, construct, install, own, operate, and maintain the Qualifying Facility in accordance with all applicable codes, laws, regulations, and generally accepted utility practices.
5. Qualifying Facility shall reimburse EKPC and its member cooperative for all costs incurred as a result of interconnecting with the QF, including operation, maintenance, administration, and billing.

---

DATE OF ISSUE March 31, 2008

DATE EFFECTIVE May 1, 2008

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

---

6. Qualifying Facility shall obtain insurance in the following minimum amounts for each occurrence:
  - a. Public Liability for Bodily Injury - \$1,000,000.00
  - b. Property Damage - \$500,000.00
7. Initial contract term shall be for a minimum of five years. (N)
8. Qualifying Facilities proposing to supply as available (non-firm) electric power shall not be entitled to a capacity payment.
9. Qualifying cogeneration and small power production facilities must meet the definition set forth in 807 KAR 5:054 to be eligible for this tariff. (N)
10. Updated rates will be filed with the Public Service Commission of Kentucky by March 31 of each year. (N)

---

DATE OF ISSUE March 31, 2008

DATE EFFECTIVE May 1, 2008

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

COGENERATION AND SMALL POWER PRODUCTION  
POWER PURCHASE RATE SCHEDULE  
LESS THAN 100 kW

**AVAILABILITY**

Available only to qualified cogeneration or small power production facilities with a design capacity of less than 100 kW which have executed a contract with East Kentucky Power Cooperative and one of EKPC's member distribution systems for the purchase of electric power by East Kentucky Power Cooperative.

**RATES**

1. Capacity

- a. \$40.40 per kW per year is applicable if cogenerator or small power producer is dispatched by East Kentucky Power Cooperative. (I)
- b. \$0.00614 per kWh is applicable if cogenerator or small power producer is not dispatched by East Kentucky Power Cooperative. (I)

2. Energy – A base payment per kWh is listed below for a time-differentiated basis or a non-time differentiated basis for the specified years.

a. Time Differentiated Rates:

Year	Winter		Summer		
	On-Peak	Off-Peak	On-Peak	Off-Peak	
2008	\$0.06032	\$0.04293	\$0.06637	\$0.03199	(I)
2009	\$0.05722	\$0.03881	\$0.05447	\$0.02094	(I)
2010	\$0.05647	\$0.03461	\$0.05069	\$0.02203	(I)
2011	\$0.06015	\$0.03899	\$0.06448	\$0.03069	(I)
2012	\$0.05875	\$0.03817	\$0.05737	\$0.02486	(I)

b. Non-Time Differentiated Rates:

Year	2008	2009	2010	2011	2012	
Rate	\$0.05120	\$0.04428	\$0.04219	\$0.04933	\$0.04596	(I)

DATE OF ISSUE March 31, 2008

DATE EFFECTIVE May 1, 2008

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

---

The on-peak and off-peak energy rates are applicable during the hours listed below for each season:

Winter (October - April)

**On-Peak** 7:00 a.m. - 12:00 noon  
5:00 p.m. - 10:00 p.m.

**Off-Peak** 12:00 noon - 5:00 p.m.  
10:00 p.m. - 7:00 a.m.

Summer (May - September)

**On-Peak** 10:00 a.m. - 10:00 p.m.

**Off-Peak** 10:00 p.m. - 10:00 a.m.

TERMS AND CONDITIONS

1. All power from a Qualifying Facility (QF) will be sold only to East Kentucky Power Cooperative.
2. Seller must provide good quality electric power within a reasonable range of voltage, frequency, flicker, harmonic currents, and power factor.
3. Qualifying Facility (QF) shall provide reasonable protection for EKPC and the member cooperative's system.
4. Qualifying Facility (QF) shall design, construct, install, own, operate, and maintain the Qualifying Facility in accordance with all applicable codes, laws, regulations, and generally accepted utility practices.
5. Qualifying Facility shall reimburse EKPC and its member cooperative for all costs incurred as a result of interconnecting with the QF, including operation, maintenance, administration, and billing.

---

DATE OF ISSUE March 31, 2008

DATE EFFECTIVE May 1, 2008

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

---

6. Qualifying Facility shall obtain insurance in the following minimum amounts for each occurrence:
  - a. Public Liability for Bodily Injury - \$1,000,000.00
  - b. Property Damage - \$500,000.00
7. Initial contract term shall be for a minimum of five years. (N)
8. Qualifying Facilities proposing to supply as available (non-firm) electric power shall not be entitled to a capacity payment.
9. Qualifying cogeneration and small power production facilities must meet the definition set forth in 807 KAR 5:054 to be eligible for this tariff. (N)
10. Updated rates will be filed with the Public Service Commission of Kentucky by March 31 of each year. (N)

---

DATE OF ISSUE March 31, 2008

DATE EFFECTIVE May 1, 2008

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

P.S.C. KY NO. ~~65~~

CANCELS P.S.C. KY NO. ~~54~~

EAST KENTUCKY POWER COOPERATIVE, INC.  
OF  
WINCHESTER, KENTUCKY

RATES, RULES, AND REGULATIONS FOR PURCHASING  
ELECTRIC POWER AND ENERGY  
AT  
VARIOUS LOCATIONS THROUGHOUT KENTUCKY  
FROM  
QUALIFIED COGENERATION AND  
SMALL POWER PRODUCTION FACILITIES

FILED WITH THE PUBLIC SERVICE COMMISSION  
OF KENTUCKY

ISSUED ~~March 31, 2008~~ ~~December 2, 2004~~  
~~1, 2005~~

EFFECTIVE ~~May 1, 2008~~ ~~January~~

ISSUED BY EAST KENTUCKY POWER COOPERATIVE, INC.

BY \_\_\_\_\_

~~Robert M. Marshall~~ ~~Roy M. Palk~~  
President and Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

COGENERATION AND SMALL POWER PRODUCTION  
POWER PURCHASE RATE SCHEDULE  
OVER 100 kW

**AVAILABILITY**

Available only to qualified cogeneration or small power production facilities with a design capacity of over 100 kW which have executed a contract with East Kentucky Power Cooperative and one of EKPC's member distribution systems for the purchase of electric power by East Kentucky Power Cooperative.

**RATES**

The rates set forth below shall be used as the basis for negotiating a final purchase rate with qualifying facilities pursuant to Section 7 of 807 KAR 5:054.

1. Capacity

- a. ~~\$40.40~~~~\$8.47~~ per kW per year is applicable if cogenerator or small power producer is dispatched by East Kentucky Power Cooperative.
- b. ~~\$0.00614~~~~\$0.00110~~ per kWh is applicable if cogenerator or small power producer is not dispatched by East Kentucky Power Cooperative.

2. Energy - A base payment per kWh is listed below for a time-differentiated basis or a non-time differentiated basis for the specified years.

a. Time Differentiated Rates:

Year	Winter		Summer	
	On-Peak	Off-Peak	On-Peak	Off-Peak
<del>2008</del> <del>2005</del>	<del>\$0.06032</del> <del>\$0.04565</del>	<del>\$0.04293</del> <del>\$0.03311</del>	<del>\$0.06637</del> <del>\$0.04093</del>	<del>\$0.03199</del> <del>\$0.01991</del>
<del>2009</del> <del>2006</del>	<del>\$0.05722</del> <del>\$0.04280</del>	<del>\$0.03881</del> <del>\$0.03116</del>	<del>\$0.05447</del> <del>\$0.04304</del>	<del>\$0.02094</del> <del>\$0.02115</del>
<del>2010</del> <del>2007</del>	<del>\$0.05647</del> <del>\$0.04479</del>	<del>\$0.03461</del> <del>\$0.03179</del>	<del>\$0.05069</del> <del>\$0.04251</del>	<del>\$0.02203</del> <del>\$0.02129</del>
<del>2011</del> <del>2008</del>	<del>\$0.06015</del> <del>\$0.04256</del>	<del>\$0.03899</del> <del>\$0.02929</del>	<del>\$0.06448</del> <del>\$0.04506</del>	<del>\$0.03069</del> <del>\$0.01874</del>
<del>2012</del> <del>2009</del>	<del>\$0.05875</del> <del>\$0.03876</del>	<del>\$0.03817</del> <del>\$0.02682</del>	<del>\$0.05737</del> <del>\$0.03901</del>	<del>\$0.02486</del> <del>\$0.01667</del>

b. Non-Time Differentiated Rates:

Year	<del>2008</del> <del>2005</del>	<del>2009</del> <del>2006</del>	<del>2010</del> <del>2007</del>	<del>2011</del> <del>2008</del>	<del>2012</del> <del>2009</del>
Rate	<del>\$0.05120</del> <del>\$0.03502</del>	<del>\$0.04428</del> <del>\$0.03437</del>	<del>\$0.04219</del> <del>\$0.03498</del>	<del>\$0.04933</del> <del>\$0.03360</del>	<del>\$0.04596</del> <del>\$0.03014</del>

DATE OF ISSUE ~~March 31, 2008~~~~December 2, 2004~~      DATE EFFECTIVE ~~May 1, 2008~~~~January 1, 2005~~

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

---

The on-peak and off-peak energy rates are applicable during the hours listed below for each season:

Winter (October - April)

**On-Peak** 7:00 a.m. - 12:00 noon  
5:00 p.m. - 10:00 p.m.

**Off-Peak** 12:00 noon - 5:00 p.m.  
10:00 p.m. - 7:00 a.m.

Summer (May - September)

**On-Peak** 10:00 a.m. - 10:00 p.m.

**Off-Peak** 10:00 p.m. - 10:00 a.m.

#### TERMS AND CONDITIONS

1. All power from a Qualifying Facility (QF) will be sold only to East Kentucky Power Cooperative.
2. Seller must provide good quality electric power within a reasonable range of voltage, frequency, flicker, harmonic currents, and power factor.
3. Qualifying Facility (QF) shall provide reasonable protection for EKPC and the member cooperative's system.
4. Qualifying Facility (QF) shall design, construct, install, own, operate, and maintain the Qualifying Facility in accordance with all applicable codes, laws, regulations, and generally accepted utility practices.
5. Qualifying Facility shall reimburse EKPC and its member cooperative for all costs incurred as a result of interconnecting with the QF, including operation, maintenance, administration, and billing.

---

DATE OF ISSUE March 31, 2008~~December 2, 2004~~ DATE EFFECTIVE May 1,  
2008~~January 1, 2005~~

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

---

6. Qualifying Facility shall obtain insurance in the following minimum amounts for each occurrence:
  - a. Public Liability for Bodily Injury - \$1,000,000.00
  - b. Property Damage - \$500,000.00
7. Initial contract term shall be for a minimum of fivetwenty years.
8. Qualifying Facilities proposing to supply as available (non-firm) electric power shall not be entitled to a capacity payment.
9. Qualifying cogeneration and small power production facilities must meet the definition set forth in 807 KAR 5:054 to be eligible for this tariff.
10. Updated rates will be filed with the Public Service Commission of Kentucky by March 31 of each year.

---

DATE OF ISSUE March 31, 2008~~December 2, 2004~~  
2008~~January 1, 2005~~

DATE EFFECTIVE May 1,

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

COGENERATION AND SMALL POWER PRODUCTION  
POWER PURCHASE RATE SCHEDULE  
LESS THAN 100 kW

**AVAILABILITY**

Available only to qualified cogeneration or small power production facilities with a design capacity of less than 100 kW which have executed a contract with East Kentucky Power Cooperative and one of EKPC's member distribution systems for the purchase of electric power by East Kentucky Power Cooperative.

**RATES**

1. Capacity

- a. ~~\$40.40~~ 8.47 per kW per year is applicable if cogenerator or small power producer is dispatched by East Kentucky Power Cooperative.
- b. ~~\$0.00614~~ 0.00110 per kWh is applicable if cogenerator or small power producer is not dispatched by East Kentucky Power Cooperative.

2. Energy - A base payment per kWh is listed below for a time-differentiated basis or a non-time differentiated basis for the specified years.

a. Time Differentiated Rates:

Year	Winter		Summer	
	On-Peak	Off-Peak	On-Peak	Off-Peak
<del>2008</del> <u>2005</u>	<del>\$0.06032</del> <u>\$0.04565</u>	<del>\$0.04293</del> <u>\$0.03311</u>	<del>\$0.06637</del> <u>\$0.04093</u>	<del>\$0.03199</del> <u>\$0.01991</u>
<del>2009</del> <u>2006</u>	<del>\$0.05722</del> <u>\$0.04280</u>	<del>\$0.03881</del> <u>\$0.03116</u>	<del>\$0.05447</del> <u>\$0.04304</u>	<del>\$0.02094</del> <u>\$0.02115</u>
<del>2010</del> <u>2007</u>	<del>\$0.05647</del> <u>\$0.04479</u>	<del>\$0.03461</del> <u>\$0.03179</u>	<del>\$0.05069</del> <u>\$0.04251</u>	<del>\$0.02203</del> <u>\$0.02129</u>
<del>2011</del> <u>2008</u>	<del>\$0.06015</del> <u>\$0.04256</u>	<del>\$0.03899</del> <u>\$0.02929</u>	<del>\$0.06448</del> <u>\$0.04506</u>	<del>\$0.03069</del> <u>\$0.01874</u>
<del>2012</del> <u>2009</u>	<del>\$0.05875</del> <u>\$0.03876</u>	<del>\$0.03817</del> <u>\$0.02682</u>	<del>\$0.05737</del> <u>\$0.03901</u>	<del>\$0.02486</del> <u>\$0.01667</u>

b. Non-Time Differentiated Rates:

Year	<del>2008</del> <u>2005</u>	<del>2009</del> <u>2006</u>	<del>2010</del> <u>2007</u>	<del>2011</del> <u>2008</u>	<del>2012</del> <u>2009</u>
Rate	<del>\$0.05120</del> <u>\$0.03502</u>	<del>\$0.04428</del> <u>\$0.03437</u>	<del>\$0.04219</del> <u>\$0.03498</u>	<del>\$0.04933</del> <u>\$0.03360</u>	<del>\$0.04596</del> <u>\$0.03014</u>

DATE OF ISSUE ~~March 31, 2008~~December 2, 2004      DATE EFFECTIVE May 1, 2008  
January 1, 2005

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

---

The on-peak and off-peak energy rates are applicable during the hours listed below for each season:

Winter (October - April)

**On-Peak** 7:00 a.m. - 12:00 noon  
5:00 p.m. - 10:00 p.m.

**Off-Peak** 12:00 noon - 5:00 p.m.  
10:00 p.m. - 7:00 a.m.

Summer (May - September)

**On-Peak** 10:00 a.m. - 10:00 p.m.

**Off-Peak** 10:00 p.m. - 10:00 a.m.

TERMS AND CONDITIONS

~~6.1.~~ All power from a Qualifying Facility (QF) will be sold only to East Kentucky Power Cooperative.

~~7.2.~~ Seller must provide good quality electric power within a reasonable range of voltage, frequency, flicker, harmonic currents, and power factor.

~~8.3.~~ Qualifying Facility (QF) shall provide reasonable protection for EKPC and the member cooperative's system.

~~9.4.~~ Qualifying Facility (QF) shall design, construct, install, own, operate, and maintain the Qualifying Facility in accordance with all applicable codes, laws, regulations, and generally accepted utility practices.

~~10.5.~~ Qualifying Facility shall reimburse EKPC and its member cooperative for all costs incurred as a result of interconnecting with the QF, including operation, maintenance, administration, and billing.

DATE OF ISSUE ~~March 31, 2008~~ December 2, 2004  
2008 January 1, 2005

DATE EFFECTIVE May 1,

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

EAST KENTUCKY POWER COOPERATIVE, INC.

---

~~7.6.~~ Qualifying Facility shall obtain insurance in the following minimum amounts for each occurrence:

- a. Public Liability for Bodily Injury - \$1,000,000.00
- b. Property Damage - \$500,000.00

~~9.7.~~ Initial contract term shall be for a minimum of five ~~twenty~~ years.

~~10.8.~~ Qualifying Facilities proposing to supply as available (non-firm) electric power shall not be entitled to a capacity payment.

9. Qualifying cogeneration and small power production facilities must meet the definition set forth in 807 KAR 5:054 to be eligible for this tariff.

10. Updated rates will be filed with the Public Service Commission of Kentucky by March 31 of each year.

---

DATE OF ISSUE March 31, 2008~~December 2, 2004~~  
2008~~January 1, 2005~~

DATE EFFECTIVE May 1,

ISSUED BY \_\_\_\_\_ TITLE President & Chief Executive Officer

# **EXHIBIT II**

## **SUPPORT INFORMATION**

**EKPC  
QUALIFIED COGENERATION AND  
SMALL POWER PRODUCTION FACILITIES TARIFF**

**SUPPORT INFORMATION**

I. Background

Pursuant to the Commission's Order in Case No. 2006-00472, EKPC is proposing a revised set of COGEN/SPP rates. In its Order, the Commission ordered EKPC to file updated QF tariff rates, along with any additional revisions, by March 31, 2008. The attached filing complies with the Commission's Order on this matter.

II. Proposed Changes to Tariffs

A. Over 100 KW COGEN/SPP Facility

1. In the Rates Section, the Tariff now reflects that the avoided cost rates serve as a basis for negotiating a final purchase rate with qualifying facilities. This provision is consistent with Section 7(4) of KAR 5:054 which states:

"Rates for purchase of output of qualifying facility with design capacity over 100 kilowatts. Each electric utility shall provide a standard rate schedule for qualifying facilities with design capacity over 100 kilowatts. The rate schedule shall be based on avoided costs which shall be subdivided into an energy and a capacity component. These rates shall be used only as the basis for negotiating a final purchase rate with qualifying facilities after proper consideration has been given to factors affecting purchase rates listed in subsections (5)(a) of this section."

B. Over 100 KW and Under 100 KW Facilities

1. Avoided demand and energy costs are updated consistent with the approach taken in prior filings, the avoided demand and energy cost is based on a comparison of costs using EKPC's proposed capacity expansion plan as anticipated, with costs associated with a capacity expansion plan assuming a 100 MW reduction in load.
2. Terms and Conditions of Service
  - a. The initial contract term is 5 years rather than 20 years. Upon review and evaluation, it was determined that 20 years was not necessary. Given the uncertainties facing the electric utility industry, particularly as it relates to

environmental regulations, a change in the length of the contract period is reasonable. Five years is also consistent with the time period associated with forecasted rates. EKPC also intends to update its proposed rates on an annual basis, by March 31 of each year.

### 3. Definition of COGEN/SPP Facilities

There is a statement in the Tariff that proposed COGEN/SPP facilities must meet the definition of qualified facilities set forth in 807 KAR 5:054 to be eligible.

## III. Avoided Cost

EKPC's estimation of its avoided cost is consistent with the current regulations set forth in 807 KAR 5:054. Shown below is a description of the methodology used to derive avoided capacity cost and avoided energy cost.

### EKPC Avoided Capacity Cost Calculation

The avoided capacity cost analysis is prepared using a spreadsheet based model that compares expansion plans and annualized capital costs. EKPC's anticipated annual growth is in the 70-80 MW range and the reduction in the 100 MW load effectively means that the base expansion plan will be shifted out one year except for units that are already committed. The net present value is calculated for the base expansion plan and for the expansion plan with the reduction in load. The difference in the net present value of annualized capital costs and fixed O&M costs (for the two expansion plan scenarios) is then divided by the average load growth to derive the avoided capacity cost for a given base year. This analysis is done for a base year and moving out a year at a time. The avoided capacity cost (\$/kW) is adjusted from a supply side cost to a demand side cost using the planning reserve margin of 12%, then levelized for a 10 year period. The levelized avoided capacity cost is adjusted for transmission losses to get the value at the distribution substation.

### Avoided Energy Cost Calculation

The avoided energy cost analysis is based on detailed production cost model simulations using RTSim. RTSim is an hourly chronological production cost simulation model. A base case run is made along with a second run with the load reduced 100MW each hour. The difference in the production cost for each run divided by the difference in load (100MW) is considered the avoided energy cost. The difference in production cost is comprised of a combination of variable generation costs and purchased power costs.

The methodology described above for Avoided Capacity and Energy Cost calculations has been used in several filings with the Kentucky PSC and is an approved methodology for avoided cost calculations.

IV. Workpapers and Support Documents

This information is included on the attached compact disc (CD).

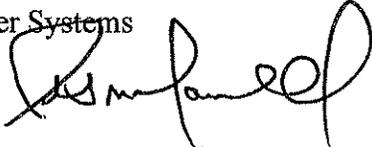
# **EXHIBIT III**

## **NOTICE TO MEMBER SYSTEMS**



EAST KENTUCKY POWER COOPERATIVE

**MEMORANDUM**

**TO:** Managers of Member Systems  
**FROM:** Robert M. Marshall   
**DATE:** March 31, 2008  
**SUBJECT:** Notice of Change to Cogeneration/Small Power Production Purchase  
Tariff

On Monday, March 31, EKPC will file with the Public Service Commission a request for approval to update its Cogeneration/Small Power Production (COGEN/SPP) Tariff. This filing is being made in accordance with the Commission's Order in EKPC's recent base rate case, PSC Case No. 2006-00472. This tariff provides rates for purchases of power and energy from Qualified Facilities, as defined by PURPA. Based on EKPC's update of its avoided costs, the filing will propose to increase the rates for such purchases by approximately 377% for capacity, and 52% for non-time differentiated energy.

EKPC is requesting an effective date of May 1, 2008 for these changes. A copy of the filing is attached for your information.

wab/pg  
Attachment